Cotton Futures Contract  
– Specifications –

1. Definitions

**Contract (specifications):** The terms and rules under which the transactions shall be executed and settled.

**Settlement price (PA):** The closing price, for the purpose of updating the value of open positions and calculating the variation margin and the settlement value of day trades, daily calculated and/or arbitrated by BM&F, at its own discretion, for each authorized delivery month, and expressed in cents of one Dollar of the United States of America per pound.

**BM&F exchange rate benchmark:** The exchange rate of Brazilian Reals per United States Dollar described in Attachment III of Circular Letter 058/2002-DG, of April 19, 2002.

**PTAX rate:** The exchange rate of Brazilian Reals (R$) per U.S. Dollar for cash delivery, traded in the foreign exchange market, pursuant to the provisions of Resolution No. 3265/2005 of the National Monetary Council (CMN), calculated and published by the Central Bank of Brazil (BACEN) through SISBACEN, transaction PTAX800, option “5,” closing offered quotation, for settlement in two days, utilizing the maximum of six decimal places, also published by BACEN with the denomination “closing PTAX,” pursuant to Communication 10742, of February 17, 2003, corresponding to the last day of the month preceding the delivery month.

2. Underlying commodity

Raw cotton pressed into bales, basis type strict low middling 41 4, in accordance with the universal standard of the United States Department of Agriculture (USDA), with a single fiber length of no less than 1 3/32 inches, certified by the Brazilian Mercantile & Futures Exchange (BM&F) in the High Volume Instrument (HVI), to be delivered in the city of São Paulo, State of São Paulo, Brazil.

3. Price quotation

Cents of one Dollar of the United States of America per pound to two decimal places.

4. Minimum daily price fluctuation

US$¢0.01 (one hundredth of a U.S. Dollar cent) per pound.

5. Maximum daily price fluctuation

As established by BM&F.

The price fluctuation limit for the first contract month shall be suspended on the third business day preceding the first day of the period for tendering Delivery Notices.

The Exchange may alter the price fluctuation limit applicable to any contract month at any time, even during a trading session, by communicating this to the market with a 30 minute-advance notice.

6. Contract size

12.5 metric tons, equal to 27,557.50 pounds.

7. Delivery months

March, May, July, October, and December.

8. Number of authorized contract months

As established by BM&F.

9. Last trading day

The tenth business day preceding the first day of the delivery month. On that day, neither opening of new short positions nor day trading shall be allowed.

10. Business day

For the purposes of this contract, a trading day at BM&F shall be considered a business day. However, for the purposes of the payment and receipt of amounts, as referred to in items 11, 12, 15.5, and 20.1, a day that is not a banking holiday in New York, USA, and is a trading day at BM&F shall be considered a business day.

11. Day trading

Buying and selling on the same trading session the same number of contracts for the same month shall be offset provided these transactions are executed on behalf of the same customer through the same Brokerage House and registered by the same Clearing member, or performed by the same Local and registered by the same Clearing Member. These transactions shall be cash settled on the following business day, and their amounts shall be calculated in accordance with item 12(a), in observance to the provisions of item 21, where applicable.
12. Daily settlement of accounts (variation margin)
The positions outstanding at the end of each session shall be settled according to that day’s settlement price, as determined by BM&F rules and regulations, and cash settled on the following business day, in observance to the provisions of item 21, where applicable.
The variation margin for open positions shall be calculated up to the business day preceding the day a Delivery Notice has been designated to the buyer, as described in item 15.1, in accordance with the following formulas:
(a) For the positions initiated on the day
\[ AD = (PA_t - PO) \times \frac{27,557.50}{100} \times n \]  
(b) For the positions initiated on the previous day
\[ AD = (PA_t - PA_{t-1}) \times \frac{27,557.50}{100} \times n \]  
Where:
- \( AD \) = the variation margin value;
- \( PA_t \) = the day’s settlement price;
- \( PO \) = the trading price;
- \( n \) = the number of contracts;
- \( PA_{t-1} \) = the previous day’s settlement price.
The variation margin value, calculated as shown above, if positive, shall be credited to the buyer and debited to the seller. Should the calculation above present a negative value, it shall be debited to the buyer and credited to the seller.

13. City of price formation and delivery point definition
The city of price formation shall be the city of São Paulo, State of São Paulo.
The delivery points for the commodity owner shall be the Exchange-licensed warehouses. Whenever a delivery is made in a city other than São Paulo, freight costs, based on a price table published by BM&F, shall be deducted from the settlement price when the cash settlement value is calculated.

14. Certificate of Classification and weight declaration
Classification shall be requested from BM&F by the seller through a licensed warehouse by means of the form adopted by the Exchange. The form must include the bale number, or the number designated by the warehouse, and the weight of each bale that makes up a lot. A term of responsibility attesting to the veracity of the declarations made on the form and the conformity of the samples must be attached to this form.
BM&F shall register the classification requests and render the corresponding service on a first in, first out basis. The Certificate of Classification, which shall be valid for one year, shall be issued within five business days, counted as from the date of receipt by the Exchange of the corresponding samples, provided they are delivered up to eight business days prior to the last day of the period for tendering Delivery Notices.
Three sealed samples shall be drawn from each lot and sent to BM&F—one of which shall be used for classification; the other two shall be filed for later use in any possible verification of the commodity delivered. The classification result shall be final and without recourse.

15. Settlement conditions on expiration
15.1 Period for tendering and designating Delivery Notices
The sellers who decide not to offset their positions up to the last trading day shall electronically register a Delivery Notice with BM&F, via the Physical Delivery System, during the period that initiates on the twentieth business day preceding the delivery month and terminates on the eleventh business day preceding the delivery month.
The Delivery Notices shall be designated to the buyers on the business day subsequent to their electronic registration in the Physical Delivery System.
The Delivery Notices shall remain available on the floor to be chosen by the customers who hold long positions. BM&F shall offer the lots in the Delivery Notices to the buyers on a first in, first out basis—that is, the customers who have held long positions for the greatest amount of time shall have priority. Should there be no parties interested in receiving all or part of the commodity in the Delivery Notices, BM&F shall determine that the customer(s) who has(ve) held long position(s) for the greatest amount of time shall take delivery of the cotton.

15.2 Delivery procedures
The buyers who choose to take delivery of cotton or who are designated by BM&F to do so must send to the Exchange, through their Brokerage Houses, the information required for invoice purposes on the second business day subsequent to the day of their designation (the day a Delivery Notice has been designated to the buyer).
Both the buyer and the seller resident in Brazil shall be allowed to assign third parties to take or make delivery of the cotton. The assigned customers, who must also send their personal data for invoice purposes, shall be bound to the contract up to the delivery’s final settlement. It shall be mandatory for the nonresident seller to assign a resident in Brazil to whom delivery rights and obligations must be transferred. It shall be mandatory for a nonresident to appoint a legal representative to provide transportation and shipment, as well as to meet all further requirements as defined by the Foreign Trade Office (SECEx) of the Ministry of Development, Industry and Foreign Trade (MDIC). In any case, the original buyer and seller shall assume responsibility for the obligations of the third parties they have assigned, up to the delivery’s final settlement. Third-party assignment by the sellers shall be made on the date of the electronic registration of the Delivery Notice. Third-party assignment by the buyers shall be made up to 09:00 (Brasília time) of the second business day subsequent to the Delivery Notice designation date.

No later than the date of the electronic registration of the Delivery Notice, the seller or assigned customer, hereinafter referred to as seller, must send to the his/her/its Brokerage House the following documentation, which shall then be sent to BM&F:

- The Certificates of Classification, issued by BM&F, with a minimum remaining validity of 120 days, counted as from the Delivery Notice issuance date;
- A licensed warehouse certificate showing that storage and regular insurance expenses have been paid, covering a 15 day-period, counted as from the Delivery Notice issuance date;
- A declaration specifying the origin of the cotton in the lot, issued by the seller;
- A packing list for the lot, issued by the licensed warehouse;
- A declaration verifying cotton ownership, issued by the licensed warehouse;
- A declaration verifying the nonexistence of charges, liens, and any fiscal debt related to the stored goods, issued by the licensed warehouse;
- A declaration issued by the licensed warehouse stating that the bales which compose the lot are in perfect condition and properly identified, also concerning the wire that binds them together, and that they are stored in contiguous piles, thus forming a single block;
- A provisional delivery order of the goods to BM&F, issued by the licensed warehouse.

Raw cotton shall only be delivered in well identified bales of perfect condition. Packing must comply with current legislation and must be free from damage, adulteration, and deterioration, and cannot have been salvaged from fire and contain foreign matter. Any lot that shows poor warehousing conditions shall not be eligible for delivery.

BM&F shall examine the bales that compose the lots stored in licensed warehouses in order to verify their conformity. The Certificates of Classification of the lots that do not comply with the specifications herein stated shall be canceled.

The seller shall be responsible for the quality and weight of the cotton delivered, up to cash settlement. Should the original composition of the bales that form a lot be maintained, this lot shall be eligible for redelivery, and no complaints shall be accepted from the buyer or assigned customer or legal representative, hereinafter referred to as buyer. Should a lot be subject to redelivery, the buyer may examine the cotton utilizing the corresponding samples filed with BM&F.

### 15.3 Lot conformity verification

The buyer may examine the lot with respect to the authenticity of the samples, the storage conditions, and the weight and state of the bales, provided the bales have not been withdrawn from the licensed warehouse. If the examined lot is not compliant with these specifications, the buyer may ask BM&F to examine the commodity stored in the warehouse up to 09:00 (Brasília time) of the fifth business day subsequent to the day a Delivery Notice has been designated to the buyer.

Should the alleged nonconformity be confirmed, the seller must replace the lot within two business days. In this case, the Exchange shall only pay the cash settlement value to the seller, through the seller’s Brokerage House, on the business day following the day of the final acceptance of the cotton by the buyer. When requesting a lot conformity verification, the buyer shall pay BM&F for the expenses involved, which shall include the travel and hotel expenses of its representative plus 1% of the value of the lot verified, calculated on the settlement price of the nearest futures delivery month verified on the day the lot conformity verification was requested; plus 0.5% for the verification of a second lot; plus 0.3% for the verification of each subsequent lot.

Should the buyer’s allegation be confirmed, the expenses relating to the lot conformity verification, plus the possible financial charges the buyer has been subjected to, as defined by BM&F, shall be borne by the seller.

Should there be any lot nonconformity, the buyer and the seller may agree upon a discount on the cash settlement value. This agreement shall be registered at BM&F.
15.4 Lot formation

Type
It must be from a single type, strict low middling 41 4 or better, and classified by BM&F.
Raw cotton mingled with cotton bur or fragments of cotton bur, grass, fragments of stem, polypropylene,
feathers, weeds, spiny seeds, cloth residues and other foreign matter shall not be eligible for delivery.
The seller shall be allowed to form a lot with type above strict low middling 41 4, without a premium
for quality.
Fiber
The inherent fiber characteristics shall be determined by the HVI system calibrated with USDA standard
cotton.
Fiber length must be at least 1 3/32 inches, equivalent to the Upper Half Mean value from 27.4 to 27.9
millimeters.
The micronaire must be between 3.5 and 4.9 microns per inch.
The tenacity of the fiber must be the minimum of 27 gram force per title or fiber thickness.
Weight
It must be 12,500 kilograms, with a plus or minus tolerance of up to the average weight of the bales that
compose a lot. Each bale must weigh from 180 to 250 kilograms.
Origin
Each lot must have only one origin. Brazilian cotton from the same producer (Federal State) shall be
allowed. For Mercosur-produced cotton, the lot must be formed with cotton produced by the same
country.
Baling
It must have a maximum density of 700 kilograms per cubic meter and minimum of 400 kilograms per
cubic meter. The bales must be wrapped in cotton screens and tied with a minimum of six wire or steel
belts, as per current practices and regulations.
A lot may not be transferred from one Exchange-licensed warehouse to another, under penalty of
cancellation of the respective Certificates of Classification.

15.5 Delivery cash settlement
The cash settlement of a physical delivery shall be made by the buyer on the third business day subsequent
to the day a Delivery Notice has been designated to the buyer, in observance to the provisions of item 21,
where applicable. The funds transfer to the seller shall be made by BM&F on the fifth business day
subsequent to the day the Delivery Notice has been designated to the buyer, in observance to the
provisions of item 21, where applicable.
The cash settlement value per contract shall be calculated by the following formula:

\[
VL = \left( \frac{PA}{100} \times LK \right) - \frac{DF}{1,000} \times P
\]

Where:

VL = the cash settlement value per contract;
PA = the settlement price of the business day preceding the day the Delivery Notice has been
designated to the buyer;
LK = the pound to kilogram conversion factor, corresponding to 2.2046;
DF = the discount for freight costs, if any;
P = the total net weight of the lot delivered to settle one contract, expressed in kilograms to the
minimum of one decimal place.

When taking delivery or redelivery, the buyer may request that the cotton be reweighed. Should the
resulting weight be different from the one informed by the licensed warehouse, the cash settlement value
shall be adjusted in the proportion of the weight difference verified. Weighing expenses shall be borne
by the buyer.

15.6 Further conditions
When the Social Integration Program (PIS) and Contribution for the Financing of Social Security
(COFINS) taxes are due, they must be paid by the seller.
When the seller is an individual, the amounts corresponding to the PIS and COFINS taxes calculated
pursuant to current legislation and in conformity with the status of the buyer as a taxpayer, who is not
eligible to receive the credits from these taxes, shall be deducted from the cash settlement value.
When the seller is a farmer, the Agricultural and Farming Fund Tax (FUNRURAL), pursuant to current
legislation, shall be deducted from the cash settlement value. The FUNRURAL tax must be paid by the
buyer, who shall then send to BM&F a copy evidencing this payment.
Each one of the parties shall be directly responsible before the other party, the Exchange and any third
parties for the information and documentation supplied for the calculation of the cash settlement value.
A physical delivery shall be effected when the seller issues an invoice to the buyer, in accordance with current legislation. BM&F shall issue a certificate which shall include the type of the delivered commodity, the quantity, and the cash settlement value (attached to a copy of the Certificate of Classification), and which shall be used, when applicable, by the legal representative of the nonresident buyer to obtain sale and export registrations, as required by SECEX.

16. Ex-pit transactions
Ex-pit transactions shall be allowed, up to the last business day preceding the first day of the period for tendering Delivery Notices, provided the conditions established by BM&F are met. These transactions shall be disclosed by BM&F, but shall not be subject to market interference.

17. Hedgers
Cotton growers, cooperatives, ginners, industries, exporters, importers, and processors.

18. Margin requirements
Collateral shall be required from all customers holding open positions. Margin values shall be updated daily by the Exchange, in accordance with the margin calculation criteria for futures contracts. Margins shall be due on the first business day following the trading day. For nonresidents, should the first business day following the trading day be a banking holiday in New York, collateral shall be due on the first day following the trading day when there is no banking holiday in that city. When the conversion of cash collateral is necessary, it shall be made in observance to the provisions of item 20, where applicable.

19. Assets eligible to meet margin requirements
For residents, cash, gold, and upon prior approval by the Exchange, federal bonds, private securities, letters of credit, shares of stocks, and equity fund units. For nonresidents, United States Dollars and upon prior approval by the Exchange, U.S. T-Bonds, T-Notes, and T-Bills.

20. Trading costs
• Transaction fees
  Consist of the Exchange, Registration and Permanence Fees, which are calculated as per BM&F methodology.
• Delivery Fee
  0.45% to be applied to the delivery cash settlement value. In addition, BM&F shall charge a 6.32% fee from the Delivery Fee total amount.
• Classification Fee
  In accordance with the price table in effect, expressed in Real.
Common Members shall pay no more than 75% of the trading costs.

20.1 Due dates
(a) The Exchange and Registration Fees shall be due on the first business day following the trading day, in observance to the provisions of item 21, where applicable.
(b) The Permanence Fee shall be due on the last business day of each month, on the day subsequent to the closing out of a customer’s positions, and when a customer’s positions are transferred to another Brokerage House.
(c) The Delivery Fee shall be due on the physical delivery cash settlement date, in observance to the provisions of item 21, where applicable.
(d) The Classification Fee shall be due when the corresponding service is requested.

21. Additional provisions for cash settlement and cash collateral conversion
The following shall apply to the payment and receipt of amounts resulting from day trades, variation margin, physical deliveries and trading costs not expressed in Reals, as well as to the conversion of cash collateral:

21.1 Nonresidents
The amounts shall be payable and receivable in United States Dollars in New York, USA, through the settlement banks appointed by BM&F. The conversion of collateral pledged in United States Dollars and/or in U.S. Treasury securities shall be made by the BM&F exchange rate benchmark, as defined in item 1, verified on the trading day.

21.2 Residents
The amounts shall be in Reals, in accordance with the regular procedures of the other BM&F contracts not authorized to be traded by foreign investors. When the conversion of amounts paid and received is necessary, the BM&F exchange rate benchmark, as defined in item 1 and verified on a specific date according to the nature of each payment, shall be used as follows:
(a) Amounts resulting from day trades: the BM&F exchange rate benchmark verified on the trading day;
(b) Amounts resulting from variation margin: the BM&F exchange rate benchmark verified on the day to which the variation margin refers;
(c) Amounts resulting from physical deliveries: the BM&F exchange rate benchmark verified on the business day preceding the cash settlement date.
When the conversion of trading costs not expressed in Reals (Exchange, Registration and Delivery Fees) is necessary, the PTAX rate, as defined in item 1, shall be used.

22. Further provisions
This contract shall be subject, where applicable, to the legislation in force and to BM&F rules, regulations, and procedures, as defined in its Bylaws, Operating Rules, and Circular Letters, as well as to the specific rules set forth by the Brazilian governmental authorities that may affect the terms stated herein.